FINANCIAL POSITION IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2020	2019
Gross cash flow	1,845	3,357
Change in working capital	159	–1,249
Cash flows from operating activities	2,004	2,108
Cash flows from investing activities attributable to operating activities	–1,328	603
Net cash flow	676	2,711

In the period from January to December 2020, the Commercial Vehicles Business Area's gross cash flow went down by €1.5 billion to €1.8 billion due to earnings-related factors driven by the Covid-19 pandemic. The change in working capital amounted to €0.2 (–1.2) billion. Cash flows from operating activities declined by €0.1 billion to €2.0 billion. Investing activities attributable to operating activities were up on the previous year, in which the intragroup sale of the power engineering business had led to a cash inflow. Net cash flow dropped to €0.7 (2.7) billion.

FINANCIAL POSITION IN THE POWER ENGINEERING BUSINESS AREA

€ million	2020	2019
Gross cash flow	–25	265
Change in working capital	588	–168
Cash flows from operating activities	562	98
Cash flows from investing activities attributable to operating activities	–274	–247
Net cash flow	289	–150

In the reporting year, gross cash flow in the Power Engineering Business Area declined to €0.0 (0.3) billion year-on-year, primarily as a result of a deterioration in profit. Due to a reduction in receivables and restructuring expenses that have not yet led to cash outflows, the change in working capital amounted to €0.6 (–0.2) billion. Cash flows from operating activities rose by €0.5 billion year-on-year, to €0.6 billion. Investing activities attributable to operating activities increased by 10.6% to €0.3 billion. Net cash flow improved by €0.4 billion to €0.3 billion.

Financial position in the Financial Services Division

In the period from January to December 2020, the Financial Services Division generated gross cash flow of €11.3 (10.9) billion. Given a decrease in funds tied up in working capital caused by the lower business volume in response to the decline in demand following the spread of the SARS-CoV-2 virus, the change in working capital amounted to €–11.1 (–23.6) billion. Cash flows from operating activities improved by €12.9 billion to €0.2 billion.

At €0.0 (0.2) billion, investing activities attributable to operating activities were below the prior-year figure.

The Financial Services Division's financing activities relate primarily to the issuance and redemption of bonds and other financial liabilities; there was a total cash inflow of €4.7 billion to refinance the business volume in the reporting period, compared with €10.4 billion in the previous year.

At the end of the reporting period, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €–164.2 billion, compared with €–169.3 billion on December 31, 2019.

NET ASSETS

Consolidated balance sheet structure

At the end of fiscal year 2020, the Volkswagen Group had total assets of €497.1 billion, 1.9% more than at the end of the prior year. The rise is mostly attributable to the boost in gross liquidity and the successful issue of hybrid notes in the second quarter of 2020. It was offset by exchange rate effects. A chart showing the structure of the consolidated balance sheet as of the reporting date can be found in this chapter. The Volkswagen Group's equity increased by €5.1 billion to €128.8 billion. The equity ratio was 25.9 (25.3)%.

As of the end of fiscal year 2020, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.6 (8.5) billion and in the form of financial guarantees in the amount of €0.4 (0.4) billion. In addition, there were other financial obligations of €22.0 billion, which exceeded the prior-year figure of €20.0 billion. The contingent liabilities relate primarily to legal risks in connection with the diesel issue, as well as to potential liabilities from tax risks in the Commercial Vehicles Business Area in Brazil. Other financial obligations primarily result from purchase commitments for property, plant and equipment and irrevocable credit commitments to customers. They also include commitments to invest in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of this technology. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue. The other financial obligations include an amount of €0.9 billion for this purpose. In addition, this item reflects the payment of the purchase price for the acquisition of all of Navistar's outstanding shares totaling around USD 3.7 billion, as the merger agreement between TRATON and Navistar contains conditions precedent and the purchase price payment cannot be recorded as a liability in the balance sheet at present.

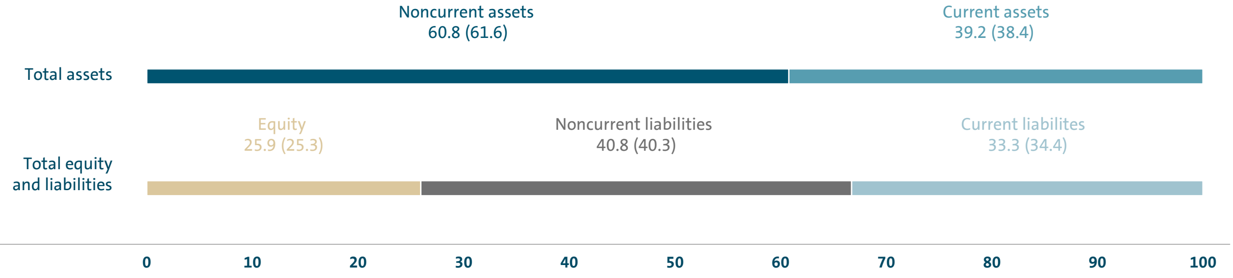
CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2020	2019	2020	2019	2020	2019
Assets						
Noncurrent assets	**302,170**	**300,608**	**156,861**	**153,736**	**145,309**	**146,873**
Intangible assets	67,968	66,214	67,781	66,010	187	204
Property, plant and equipment	63,884	66,152	62,807	65,043	1,077	1,110
Lease assets	50,686	48,938	1,512	2,084	49,174	46,853
Financial services receivables	82,565	86,973	−377	−390	82,942	87,363
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	37,067	32,331	25,137	20,989	11,930	11,342
Current assets	**194,944**	**187,463**	**97,236**	**93,081**	**97,708**	**94,382**
Inventories	43,823	46,742	39,055	41,898	4,768	4,844
Financial services receivables	58,006	58,615	−557	−640	58,562	59,255
Other receivables and financial assets	38,044	38,620	17,012	17,803	21,033	20,817
Marketable securities	21,162	16,769	17,503	13,546	3,658	3,223
Cash, cash equivalents and time deposits	33,909	25,923	24,222	19,679	9,687	6,243
Assets held for sale	–	795	–	795	–	–
Total assets	**497,114**	**488,071**	**254,097**	**246,816**	**243,017**	**241,255**
Equity and liabilities						
Equity	**128,783**	**123,651**	**96,733**	**92,774**	**32,050**	**30,877**
Equity attributable to Volkswagen AG shareholders	111,336	109,117	79,913	78,872	31,423	30,246
Equity attributable to Volkswagen AG hybrid capital investors	15,713	12,663	15,713	12,663	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	127,049	121,781	95,626	91,535	31,423	30,246
Noncontrolling interests	1,734	1,870	1,107	1,239	627	631
Noncurrent liabilities	**202,921**	**196,497**	**93,523**	**90,822**	**109,398**	**105,675**
Financial liabilities	114,809	113,556	15,637	17,592	99,173	95,965
Provisions for pensions	45,081	41,389	44,207	40,631	874	759
Other liabilities	43,031	41,551	33,680	32,600	9,352	8,951
Current liabilities	**165,410**	**167,924**	**63,840**	**63,220**	**101,569**	**104,703**
Financial liabilities	88,648	87,912	−2,806	−7,312	91,454	95,224
Trade payables	22,677	22,745	19,539	19,603	3,137	3,142
Other liabilities	54,085	56,896	47,107	50,559	6,978	6,337
Liabilities associated with assets held for sale	–	370	–	370	–	–
Total equity and liabilities	**497,114**	**488,071**	**254,097**	**246,816**	**243,017**	**241,255**

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions, primarily intragroup loans.

CONSOLIDATED BALANCE SHEET STRUCTURE 2020

in percent



Automotive Division balance sheet structure

As of December 31, 2020, the Automotive Division's intangible assets increased slightly compared with fiscal year 2019, driven among other factors by a rise in capitalized development costs. Property, plant and equipment declined due to exchange rate factors and depreciation in excess of additions. Equity-accounted investments were up as the year-on-year decline in the business results of the Chinese joint ventures was offset by resolutions to pay lower dividends and by additions to the interests held in entities such as Argo AI, QuantumScape, Anhui Jianghuai Automobile Group Holdings and Northvolt. Noncurrent other receivables and financial assets increased. Total noncurrent assets were up €3.1 billion to €156.9 billion.

Current assets were higher than at the end of 2019, amounting to €97.2 (93.1) billion. As a result of downscaled production in response to the pandemic and due to exchange rate effects, the inventories included in this item were lower. The Automotive Division's securities and cash and cash equivalents rose by €8.5 billion to €41.7 billion.

In the previous year, the "Assets held for sale" item included the carrying amounts of assets to be derecognized as a result of the contribution of AID to the Argo AI joint venture and those relating to the sale of Renk.

At the end of the reporting year, the Automotive Division's equity amounted to €96.7 billion, 4.3% more than a year earlier. The increase was mainly attributable to the profit generated, the hybrid notes issued in June 2020, and the positive effects from the measurement of derivatives recognized directly in equity. Currency translation, the dividend payment to the shareholders of Volkswagen AG resolved by the Annual General Meeting, and higher actuarial losses from the remeasurement of pension plans reduced equity. Noncontrolling interests are primarily held by the noncontrolling interest shareholders of TRATON. The equity ratio was 38.1 (37.6)%.

Noncurrent liabilities increased by €2.7 billion to €93.5 billion. The decrease in noncurrent financial liabilities included in this item was driven primarily by reclassifications from noncurrent to current liabilities to reflect shorter remaining maturities and by exchange rate effects; the issuance of green bonds in September 2020 had an offsetting impact on this item. Pension provisions were significantly higher than the comparative 2019 figure, due mainly to the actuarial remeasurement following a change in the discount rate.

At €63.8 (63.2) billion, current liabilities were on a level with the previous year. Current financial liabilities amounted to €–2.8 (–7.3) billion due primarily to reclassifications from noncurrent to current liabilities. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division, a negative amount was disclosed in both periods. Current other liabilities were down, primarily due to the effects of the measurement of derivatives and to lower liabilities from buyback transactions. Other provisions decreased, due mainly to utilizations in connection with the diesel issue.

At the end of fiscal year 2020, the Automotive Division's total assets amounted to €254.1 billion, up 2.9% compared with the figure on December 31, 2019.

PASSENGER CARS BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2020	Dec. 31, 2019
Noncurrent assets	130,237	126,387
Current assets	83,180	75,459
Total assets	**213,417**	**201,846**
Equity	81,423	75,773
Noncurrent liabilities	82,263	78,679
Current liabilities	49,731	47,394

COMMERCIAL VEHICLES BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2020	Dec. 31, 2019
Noncurrent assets	24,777	25,143
Current assets	11,256	13,420
Total assets	**36,033**	**38,563**
Equity	13,389	14,115
Noncurrent liabilities	10,592	11,367
Current liabilities	12,052	13,081

At the end of 2020, intangible assets in the Passenger Cars Business Area were higher than at the 2019 balance sheet date. This was attributable among other factors to an increase in capitalized development costs. Exchange rate factors and depreciation in excess of additions led to a decrease in property, plant and equipment. Equity-accounted investments rose compared with December 31, 2019: the year-on-year decline in the business results of the Chinese joint ventures was set against resolutions to pay lower dividends in the Chinese joint ventures, as well as additions to the interests held in entities such as Argo AI, QuantumScape, Anhui Jianghuai Automobile Group Holdings and Northvolt. Overall, noncurrent assets increased by 3.0% compared with the end of 2019. Current assets rose by 10.2%. The inventories included in this item were lower as a result of downscaled production in response to the pandemic and due to exchange rate effects. Total securities and cash and cash equivalents in the Passenger Cars Business Area significantly exceeded the figure recorded at the end of 2019. On December 31, 2020, the Passenger Cars Business Area had total assets amounting to €213.4 (201.8) billion.

At €81.4 (75.8) billion, the Passenger Cars Business Area's equity was up on the figure for December 31, 2019, mainly for earnings-related reasons. Total noncurrent liabilities were 4.6% higher than at the end of 2019. The noncurrent financial liabilities included in this item increased, and pension provisions rose, mainly due to the actuarial remeasurement following a change in the discount rate. A rise in current financial liabilities was the main factor driving the 4.9% increase in current liabilities compared with the end of 2019. This was offset in particular by lower other provisions, whose decline was driven by factors such as utilizations in connection with the diesel issue.

At the end of the reporting period, property, plant and equipment in the Commercial Vehicles Business Area was up slightly, while lease assets were down. In total, noncurrent assets were slightly lower than at the last balance sheet date in 2019, amounting to €24.8 (25.1) billion. Current assets declined by 16.1%. The inventories included in this item were lower as a result of downscaled production in response to the pandemic. Total securities and cash and cash equivalents decreased in the reporting year. At €36.0 billion, total assets were again €2.5 billion lower than in the previous year.

The Commercial Vehicles Business Area's equity was down on the previous year, amounting to €13.4 (14.1) billion. Noncurrent liabilities were 6.8% lower overall than on December 31, 2019. There was a decline in other noncurrent liabilities. Current liabilities dropped by a total of 7.9%. The current other liabilities included in this item were lower than on the previous year's balance sheet date.

POWER ENGINEERING BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2020	Dec. 31, 2019
Noncurrent assets	1,847	2,206
Current assets	2,800	4,202
Total assets	**4,647**	**6,408**
Equity	1,922	2,885
Noncurrent liabilities	668	777
Current liabilities	2,057	2,746

The Power Engineering Business Area's intangible assets and property, plant and equipment were lower on December 31, 2020 than on the prior-year balance sheet date. Noncurrent assets dropped by a total of 16.3%. Current assets decreased by 33.4%, with a significant reduction in the cash and cash equivalents included in this item. In the previous year, the "Assets held for sale" item had included the carrying amounts of assets derecognized as a result of the sale of Renk completed in October 2020. As a result, total assets in the Power Engineering Business Area went down to €4.6 (6.4) billion at the end of fiscal year 2020.

At the end of 2020, the Power Engineering Business Area's equity amounted to €1.9 (2.9) billion. Overall, noncurrent liabilities were lower than a year earlier. Current liabilities also declined compared with the end of 2019. The financial liabilities included here fell significantly, while other provisions went up because of provisions recognized for restructuring measures. Current liabilities as of the end of 2019 had also included the carrying amounts of the liabilities of Renk, which were derecognized as a result of the sale of Renk in 2020.

Financial Services Division balance sheet structure

On December 31, 2020, the Financial Services Division had total assets of €243.0 (241.3) billion, slightly more than at the balance sheet date in 2019.

Noncurrent assets declined by 1.1% to €145.3 billion compared with the end of the prior year; the property, plant and equipment included in this item was virtually unchanged. Lease assets increased, while non-current financial services receivables were down because volumes and exchange rates were affected by the Covid-19 pandemic.

Current assets expanded to €97.7 (94.4) billion. Current financial services receivables were lower than at the end of 2019, primarily for pandemic-related reasons. At €13.3 billion, total securities and cash and cash equivalents in the Financial Services Division exceeded the figure recorded at the end of 2019 by €3.9 billion.

On December 31, 2020, the Financial Services Division accounted for around 48.9 (49.4)% of the Volkswagen Group's assets.

At the end of the reporting year, the Financial Services Division's equity stood at €32.0 billion, 3.8% more than a year earlier. Negative exchange rate effects were offset by positive earnings. The equity ratio was 13.2 (12.8)%.

Noncurrent liabilities increased by 3.5% overall, mainly due to a rise in noncurrent financial liabilities and higher other provisions. A reduction in current financial liabilities, offset by higher other current liabilities, led to a net decrease in total current liabilities.

Deposits from the direct banking business amounted to €28.9 (32.5) billion, and were therefore below the figure recorded at the end of 2019.

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION

The Volkswagen Group's financial target system centers on continuously and sustainably increasing the value of the Company. In order to ensure the efficient use of resources in the Automotive Division and to measure the success of this, we have been using a value-based management system for a number of years, with return on investment (ROI) as a relative indicator and value contribution[1], a key performance indicator linked to the cost of capital, as an absolute performance measure.

The return on investment serves as a consistent target in strategic and operational management. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. The concept of value-based management allows the success of the Automotive Division and individual business units to be evaluated. It also enables the earnings power of our products, product lines and projects – such as new plants – to be measured.

Components of value contribution

Value contribution[1] is calculated on the basis of the operating result after tax and the opportunity cost of invested capital.

The operating result shows the economic performance of the Automotive Division and is initially a pre-tax figure. Based on our companies' income tax rates, which vary from country to country, we assume an overall average tax rate of 30% when calculating the operating result after tax.

1 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.